

MONTGOMERY COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2011 AND 2010

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2011

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Jim Robinson, Chair	Villisca, Iowa	2016
Lorin Petersen, Vice-Chair	Stanton, Iowa	2014
Kenneth Rech, Treasurer	Red Oak, Iowa	2014
Kathy Carlson, Secretary	Red Oak, Iowa	2012
Sarah Smith	Red Oak, Iowa	2014
Roger Ehmke	Red Oak, Iowa	2016
Kevin Cabbage	Stanton, Iowa	2012
<u>Chief Executive Officer:</u>		
Allen E. Pohren	Red Oak, Iowa	
<u>Chief Financial Officer:</u>		
Rick Leinen	Red Oak, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

We have audited the accompanying balance sheets of Montgomery County Memorial Hospital as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery County Memorial Hospital as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2011 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Board of Trustees
Montgomery County Memorial Hospital

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4e and 23 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information (shown on pages 24 through 41) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gannett, Ben, Kyhn & W.P.C.

Atlantic, Iowa
December 19, 2011



Montgomery County Memorial Hospital

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MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2011, 2010, and 2009. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets decreased in 2011 by \$538,413, or 2.2 percent. The Hospital's net assets increased in 2010 by \$835,787 or 3.6 percent.

The Hospital reported an operating loss of \$1,839,090 in 2011 and an operating loss of \$626,698 in 2010. In 2009, the Hospital reported an operating loss of \$823,182.

Non-operating revenues were \$1,255,677 in 2011, \$1,398,090 in 2010, and \$1,603,965 in 2009. The largest component of nonoperating revenues is county taxes, which have been approximately \$1.3 million each year (\$1.37 million in 2011).

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets, the difference between assets and liabilities, are one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors must be considered to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the cash balance during the reporting period.

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets decreased \$538,413 or 2.2 percent in 2011 and increased \$835,787 or 3.6 percent in 2010, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 8,758,044	\$ 8,838,013	\$ 8,041,887
Capital assets, net	21,924,713	20,655,089	13,595,321
Other noncurrent assets	<u>6,098,496</u>	<u>4,254,770</u>	<u>7,167,674</u>
Total assets	<u>\$ 36,781,253</u>	<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>
Liabilities:			
Long-term debt outstanding	\$ 8,174,106	\$ 4,589,123	\$ 1,653,893
Other current and noncurrent liabilities	<u>4,912,577</u>	<u>4,925,766</u>	<u>3,753,793</u>
Total liabilities	<u>\$ 13,086,683</u>	<u>\$ 9,514,889</u>	<u>\$ 5,407,686</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 12,195,621	\$ 15,138,405	\$ 11,262,460
Restricted expendable net assets	71,197	823,559	857,302
Unrestricted	<u>11,427,752</u>	<u>8,271,019</u>	<u>11,277,434</u>
Total net assets	<u>\$ 23,694,570</u>	<u>\$ 24,232,983</u>	<u>\$ 23,397,196</u>
Total liabilities and net assets	<u>\$ 36,781,253</u>	<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2 shows the components of the operating and nonoperating activities and the resulting effect on changes in net assets.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:			
Net patient service revenues	\$ 25,394,158	\$ 24,648,750	\$ 23,610,244
Other operating revenues	<u>335,312</u>	<u>388,907</u>	<u>415,627</u>
Total operating revenues	25,729,470	25,037,657	24,025,871
Operating Expenses:			
Salaries and wages	12,517,178	12,223,870	12,135,988
Employee benefits	3,681,276	3,464,279	3,136,846
Professional fees	1,906,874	1,929,763	1,676,300
Other operating expenses	7,031,978	6,383,284	6,251,298
Depreciation and amortization	<u>2,431,254</u>	<u>1,663,159</u>	<u>1,648,621</u>
Total operating expenses	27,568,560	25,664,355	24,849,053
Operating loss	(1,839,090)	(626,698)	(823,182)
Nonoperating Revenues and Expenses:			
Property taxes	1,366,800	1,291,992	1,291,992
Investment income	31,948	59,805	230,921
Noncapital grants and contributions	19,870	28,706	47,686
Other nonoperating revenues			
(expenses), net	<u>(162,941)</u>	<u>17,587</u>	<u>33,366</u>
Total nonoperating revenues, net	1,255,677	1,398,090	1,603,965
Excess of Revenues Over Expenses			
(Expenses Over Revenues) Before			
Capital Grants and Contributions	(583,413)	771,392	780,783
Capital Grants and Contributions	<u>45,000</u>	<u>64,395</u>	<u>25,000</u>
Increase (Decrease) in Net Assets	(538,413)	835,787	805,783
Net Assets Beginning of Year	<u>24,232,983</u>	<u>23,397,196</u>	<u>22,591,413</u>
Net Assets End of Year	<u>\$ 23,694,570</u>	<u>\$ 24,232,983</u>	<u>\$ 23,397,196</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis – Continued

OPERATING INCOME AND LOSS

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2011, the Hospital had an operating loss of (\$1,839,090); in 2010, it was (\$626,698); and in 2009, the Hospital had an operating loss of (\$823,182). The operating loss in 2011 represents an increase of \$1,212,392 from the loss in 2010, and the operating loss in 2010 represents a decrease of \$196,484 from the loss in 2009.

The primary components of these operating income and operating losses are:

Net patient service revenue increased \$745,408 or 3.0 percent from 2010 to 2011. Components of this include \$2,934,028 in increased patient charges (7.8%), \$1,935,966 in increased contractual adjustments (16.1%), and increased \$245,833 provision for bad debts and charity care. Accounts written off were higher from 2011 to 2010. The aging of accounts receivable shows a trend of older accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for approximately nine months in 2009 and a full year in 2010 & 2011. In addition, Surgical Services were provided for the full year.

In 2011, contractual adjustments are 34.2 percent of patient service revenue, compared to 31.8 percent of patient service revenue in 2010, 32.6 percent in 2009, 28.2 percent in 2008, and 27.0 percent in 2007. Contractual adjustments have improved since 2004, 38.0 percent, because of the Hospital's designation as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a CAH, the Hospital is reimbursed defined costs for services provided to Medicare and Medicaid patients. Medicare patients represent about 61.4 percent of the Hospital's patient service revenue in 2011 (60 percent in 2010). Medicaid represents about 7.3 percent of the Hospital's patient service revenues in 2011(8.5 percent in 2010).

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. At the date of this report, two years of Medicare and two years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement. Many of the non-Medicare contractals are increasing significantly. In particular, the Hospital's Wellmark business is at 16.7% for 2011 as compared to 17.2% for 2010. With new payment systems in place we expect Wellmark's contractual allowances to grow in 2012.

Salaries and wages costs increased \$293,308 or 2.4 percent from 2010 to 2011. Employee benefits increased \$216,997 or 6.3 percent in 2011. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

Total operating expenses increased \$1,904,205 or 7.4 percent from 2010 to 2011. Included in this is an increase in depreciation expense of \$770,107 or 46.8 percent. Depreciation has increased with the completion of the hospital's addition in August, 2010. Investments in new technology and replacement of aging capital assets in the past three years are resulting in increased depreciation and equipment maintenance costs. Part of the hospital's increased salaries and expense has been incurred with the addition of Red Oak Internal Medicine and Surgical service commencing during 2009.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.13 to the financial statements.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2011 was prepared on a modified accrual basis. Hospital gross operating revenue and operating expenditures were less than budgeted amounts during 2011 by \$5,760,558 and \$5,742,220, respectively. The budgeted amounts were higher due to higher anticipated debt proceeds, construction expenditures and patient volume.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2011, the Hospital had \$21,924,713 invested in capital assets, net of accumulated depreciation (\$23,977,351 in 2011), as detailed in Note F to the financial statements. In 2011, the Hospital purchased new property and equipment costing \$1,036,204 (\$943,233 in 2010; \$1,545,168 in 2009). During the year ended June 30, 2011, the Hospital capitalized its long-term site development, renovation and expansion of the existing facility with a total cost of \$15,142,628.

Debt:

At year-end, the Hospital had \$8,634,457 in notes payable and a capital lease outstanding as detailed in Note G (\$5,382,674 at June 30, 2010).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash	\$ 1,890,890	\$ 584,377
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,338,447 in 2011, \$1,527,000 in 2010)	3,540,884	4,605,776
Other receivables	56,797	65,040
Inventory	413,594	397,955
Prepaid expense	430,890	419,605
Estimated third party payor settlements	938,000	554,000
Succeeding year property tax receivable	1,395,000	1,364,000
Internally designated assets	<u>91,989</u>	<u>847,260</u>
Total current assets	8,758,044	8,838,013
Designated and Restricted Assets:		
Internally designated assets	5,504,845	3,661,808
Restricted assets	<u>71,197</u>	<u>823,559</u>
	5,576,042	4,485,367
Less amounts required to meet current liabilities	<u>91,989</u>	<u>847,260</u>
	5,484,053	3,638,107
Capital Assets:		
Depreciable capital assets, net	21,821,373	8,168,369
Non-depreciable capital assets	<u>103,340</u>	<u>12,486,720</u>
	21,924,713	20,655,089
Other Assets:		
Notes receivable	15,000	99,172
Debt issue costs	131,868	148,351
Other	<u>467,575</u>	<u>369,140</u>
	614,443	616,663
 Total assets	 <u>\$ 36,781,253</u>	 <u>\$ 33,747,872</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 430,524	\$ 727,444
Accounts payable	1,670,469	1,508,912
Accrued salaries and wages	368,169	327,649
Accrued other employee compensation	785,255	755,362
Accrued interest payable	31,507	13,251
Accrued fees	17,719	24,100
Payroll taxes withheld and accrued	179,141	175,041
Other current liabilities	34,793	30,007
Deferred revenue for succeeding year property tax receivable	<u>1,395,000</u>	<u>1,364,000</u>
Total current liabilities	<u>4,912,577</u>	<u>4,925,766</u>
Long-Term Debt:		
Notes payable, less unamortized refunding costs and current maturities	8,067,490	4,589,123
Capital lease obligations, less current maturities	<u>106,616</u>	<u>--</u>
Total long-term debt	<u>8,174,106</u>	<u>4,589,123</u>
Total liabilities	13,086,683	9,514,889
Net Assets:		
Invested in capital assets, net of related debt	12,195,621	15,138,405
Restricted - expendable	71,197	823,559
Unrestricted	<u>11,427,752</u>	<u>8,271,019</u>
Total net assets	<u>23,694,570</u>	<u>24,232,983</u>
Total liabilities and net assets	<u>\$ 36,781,253</u>	<u>\$ 33,747,872</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Revenue:		
Net patient service revenue	\$ 25,394,158	\$ 24,648,750
Other revenue	<u>335,312</u>	<u>388,907</u>
Total revenue	25,729,470	25,037,657
Expenses:		
Nursing service	6,870,093	6,475,945
Other professional service	11,680,695	11,341,917
General service	2,580,508	2,400,642
Fiscal and administrative service	4,006,010	3,782,692
Provision for depreciation	2,414,771	1,644,664
Amortization	<u>16,483</u>	<u>18,495</u>
Total expenses	<u>27,568,560</u>	<u>25,664,355</u>
Operating Loss	(1,839,090)	(626,698)
Non-Operating Revenue (Expenses):		
County taxes	1,366,800	1,291,992
Investment income	31,948	59,805
Noncapital grants and contributions	19,870	28,706
Rental income, net	192,983	161,590
Interest expense	<u>(355,924)</u>	<u>(144,003)</u>
Non-operating revenue, net	<u>1,255,677</u>	<u>1,398,090</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	(583,413)	771,392
Capital Grants and Contributions	<u>45,000</u>	<u>64,395</u>
Increase (Decrease) in Net Assets	(538,413)	835,787
Net Assets - Beginning of Year	<u>24,232,983</u>	<u>23,397,196</u>
Net Assets - End of Year	<u>\$ 23,694,570</u>	<u>\$ 24,232,983</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 26,083,293	\$ 23,491,861
Cash paid to suppliers	(13,099,659)	(11,141,370)
Cash paid to employees	(12,446,765)	(12,174,959)
Other revenue received	<u>335,312</u>	<u>388,907</u>
Net cash provided by operating activities	872,181	564,439
Cash flows from non-capital financing activities:		
County tax received	1,366,800	1,291,992
Noncapital grants and contributions	<u>19,870</u>	<u>28,706</u>
Net cash provided by non-capital financing activities	1,386,670	1,320,698
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(2,233,574)	(7,797,705)
Purchase of property and equipment	(653,367)	(743,161)
Principal paid on long-term debt	(1,923,724)	(545,000)
Principal paid on capital leases	(27,732)	--
Proceeds on notes payable	5,037,326	3,662,674
Debt issue costs paid	--	(107,300)
Interest paid	(339,032)	(146,513)
Capital grants and contributions	<u>45,000</u>	<u>64,395</u>
Net cash used in capital and related financing activities	(95,103)	(5,612,610)
Cash flows from investing activities:		
Investment income received	31,948	59,805
Decrease in designated and restricted assets	1,006,594	1,181,354
Increase in notes receivable, net	--	(6,672)
Office building rental income	244,147	217,175
Increase in other assets	<u>(42,655)</u>	<u>(44,386)</u>
Net cash provided by investing activities	<u>1,240,034</u>	<u>1,407,276</u>
Net increase (decrease) in cash and cash equivalents	3,403,782	(2,320,197)
Cash and cash equivalents at beginning of year	<u>2,203,982</u>	<u>4,524,179</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,607,764</u></u>	<u><u>\$ 2,203,982</u></u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,890,890	\$ 584,377
Cash and cash equivalents in internally designated assets	<u>3,716,874</u>	<u>1,619,605</u>
	<u>\$ 5,607,764</u>	<u>\$ 2,203,982</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(1,839,090)	\$(626,698)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	2,414,771	1,644,664
Amortization	106,852	18,495
Changes in assets and liabilities		
Accounts receivable	1,073,135	(567,889)
Inventory	(15,639)	(10,168)
Prepaid expense	(11,285)	(291,657)
Estimated third-party payor settlements	(384,000)	(589,000)
Accounts payable, trade	(545,481)	932,445
Accrued salaries and wages	40,520	21,489
Accrued other employee compensation	29,893	27,422
Payroll taxes withheld and accrued	4,100	9,625
Accrued fees	(6,381)	4,100
Other current liabilities	4,786	(8,389)
Total adjustments	<u>2,711,271</u>	<u>1,191,137</u>
Net cash provided by operating activities	<u>\$ 872,181</u>	<u>\$ 564,439</u>

Non-Cash Transactions:

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2011</u>	<u>2010</u>
Capital lease was entered into for the purchase of equipment	<u>\$ 165,913</u>	<u>\$ --</u>
Deferred loss on asset	<u>\$ 61,977</u>	<u>\$ --</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, home health hospice and physician clinic services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. The Hospital has elected to exclude the financial information of its component unit from these financial statements which, when discreetly presented, would not materially affect the Hospital's Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, or Statement of Cash Flows.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$37,644 in 2011 (\$55,502 in 2010).

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued other employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note G. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost report has been audited and finalized by the fiscal intermediaries through June 30, 2009. The Hospital's Medicaid cost report has been audited and finalized by the fiscal intermediaries through June 30, 2009. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Long-term debt	\$ <u>71,197</u>	\$ <u>823,559</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2011 or 2010.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2011</u>	<u>2010</u>
Purchase of property and equipment	\$ 45,000	\$ 64,395
Payment of long-term debt	<u>752,362</u>	<u>33,743</u>
	<u>\$ 797,362</u>	<u>\$ 98,138</u>

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$11,427,752 (\$8,271,019 as of June 30, 2010) of unrestricted net assets as of June 30, 2011, \$5,504,845 (\$3,661,808 for 2010) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2011</u>	<u>2010</u>
Capital acquisitions and related property taxes	\$ 20,792	\$ 70,284
Operations	<u>5,484,053</u>	<u>3,591,524</u>
	<u>\$ 5,504,845</u>	<u>\$ 3,661,808</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2011</u>	<u>2010</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 3,645,677	\$ 1,591,547
Certificates of deposit	1,854,479	2,056,153
Interest receivable	<u>4,689</u>	<u>14,108</u>
	<u>\$ 5,504,845</u>	<u>\$ 3,661,808</u>
Restricted Assets:		
Cash and cash equivalents	\$ 71,197	\$ 28,058
Certificates of deposit	--	792,754
Interest receivable	<u>--</u>	<u>2,747</u>
	<u>\$ 71,197</u>	<u>\$ 823,559</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2011 and 2010 were as follows:

<u>Cost</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Land Improvements	\$ 1,047,211	\$ 950,228	\$ --	\$ 1,997,439
Buildings	7,149,098	7,836,772	--	14,985,870
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	5,164,966	5,844,462	--	11,009,428
Fixed Equipment	638,239	589,139	--	1,227,378
Major Movable Equipment	<u>13,891,322</u>	<u>958,231</u>	<u>305,637</u>	<u>14,543,916</u>
	29,925,529	16,178,832	305,637	45,798,724
<u>Depreciation</u>				
Land Improvements	967,515	101,261	--	1,068,776
Buildings	3,119,841	578,134	--	3,697,975
Building Components	1,601,335	106,287	--	1,707,622
Building Service Equipment	4,596,304	378,287	--	4,974,591
Fixed Equipment	581,454	37,314	--	618,768
Major Movable Equipment	<u>10,890,711</u>	<u>1,262,568</u>	<u>243,660</u>	<u>11,909,619</u>
Total Depreciation	<u>21,757,160</u>	<u>2,463,851</u>	<u>243,660</u>	<u>23,977,351</u>
Depreciable Capital Assets, Net	<u>\$ 8,168,369</u>	<u>\$ 13,714,981</u>	<u>\$ 61,977</u>	<u>\$ 21,821,373</u>
Construction in Progress	\$ 12,383,380	\$ 2,759,248	\$ 15,142,628	\$ --
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 12,486,720</u>	<u>\$ 2,759,248</u>	<u>\$ 15,142,628</u>	<u>\$ 103,340</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 1,047,211	\$ --	\$ --	\$ 1,047,211
Buildings	7,071,860	77,238	--	7,149,098
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	5,149,106	15,860	--	5,164,966
Fixed Equipment	628,839	9,400	--	638,239
Major Movable Equipment	<u>13,058,834</u>	<u>840,735</u>	<u>8,247</u>	<u>13,891,322</u>
	28,990,543	943,233	8,247	29,925,529
<u>Depreciation</u>				
Land Improvements	948,771	18,744	--	967,515
Buildings	2,961,690	158,151	--	3,119,841
Building Components	1,472,507	128,828	--	1,601,335
Building Service Equipment	4,483,813	112,491	--	4,596,304
Fixed Equipment	579,072	2,382	--	581,454
Major Movable Equipment	<u>9,620,081</u>	<u>1,278,877</u>	<u>8,247</u>	<u>10,890,711</u>
Total Depreciation	<u>20,065,934</u>	<u>1,699,473</u>	<u>8,247</u>	<u>21,757,160</u>
Depreciable Capital Assets, Net	<u>\$ 8,924,609</u>	<u>\$ (756,240)</u>	<u>\$ --</u>	<u>\$ 8,168,369</u>
Construction in Progress	\$ 4,567,372	\$ 7,888,232	\$ 72,224	\$ 12,383,380
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 4,670,712</u>	<u>\$ 7,888,232</u>	<u>\$ 72,224</u>	<u>\$ 12,486,720</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,303,676, of which a portion is rented to local healthcare related organizations. The depreciation expense on all property and equipment totaled \$2,463,851 for the year ended June 30, 2011 (\$1,699,473 in 2010), of which \$49,080 (\$54,809 in 2010) is related to the rental space and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE G - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2011 and 2010 follows:

	Balance 2010	Additions	Reductions	Balance 2011	Current Portion
Long-Term Debt:					
Series 2003 notes	\$ 1,720,000	\$ --	\$ 1,720,000	\$ --	\$ --
Series 2009 note	3,662,674	5,037,326	203,724	8,496,276	421,774
Less unamortized refunding costs	(66,107)	--	(36,280)	(29,827)	(22,815)
Capital Lease Obligation	<u>--</u>	<u>165,913</u>	<u>27,732</u>	<u>138,181</u>	<u>31,565</u>
Total Long-Term Debt	<u>\$ 5,316,567</u>	<u>\$ 5,203,239</u>	<u>\$ 1,915,176</u>	<u>\$ 8,604,630</u>	<u>\$ 430,524</u>
	Balance 2009	Additions	Reductions	Balance 2010	Current Portion
Long-Term Debt:					
Series 2003 notes	\$ 2,265,000	\$ --	\$ 545,000	\$ 1,720,000	\$ 560,000
Series 2009 note	--	3,662,674	--	3,662,674	203,725
Less unamortized refunding costs	(113,767)	--	(47,660)	(66,107)	(36,281)
Total Long-Term Debt	<u>\$ 2,151,233</u>	<u>\$ 3,662,674</u>	<u>\$ 497,340</u>	<u>\$ 5,316,567</u>	<u>\$ 727,444</u>

The Series 2003 Hospital Revenue Refunding Capital Loan Notes were issued in December, 2003, with varying interest rates ranging from 1.50% to 4.60%. The notes were issued to refund the Series 1993 bonds. The notes matured in semi-annual installments through June, 2013. The Hospital had pledged its future revenues (net of certain expenses) to repay the notes. The final two payments totaling \$1,160,000 were paid with proceeds from the Series 2009 note on December 1, 2010.

The Series 2009 Revenue and Refunding Capital Loan Note was issued in September, 2009 in a principal amount up to \$8,700,000. The note was issued to refund the Series 2003 notes and pay for a renovation and expansion project. As of June 30, 2011, all of the note proceeds had been drawn by the Hospital. The note carries an interest rate of 4.625% per annum through December 1, 2015. On December 1, 2015 and again on December 1, 2020, the rate will be adjusted to 1.375% over the five year Federal Home Loan Bank of Des Moines fixed advance rate in effect on those dates. Such rate increases, however, will be limited to a 1.75% increase over the preceding effective interest rate. Interest only on outstanding principal was payable monthly through December 1, 2010. Commencing December 1, 2010, the note matures in 60 equal quarterly installments (as adjusted for changes in the interest rate) of principal and interest.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE G - NON-CURRENT LIABILITIES - Continued

The note is collateralized by future revenues of the Hospital. Under the terms of the note indenture, the Hospital is required to satisfy certain measures of financial performance as long as the note is outstanding. The note indenture also places limits on the incurrence of additional borrowings. The Hospital is also required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

The annual debt service on the notes and capital lease obligation is expected to require less than 26% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$2,290,500 and \$2,236,400, respectively.

Assets recorded under capital leases consist of major movable equipment items with totals as follows:

	<u>2011</u>
Cost	\$ 165,913
Less: Accumulated Amortization	<u>21,727</u>
Net Book Value	<u>\$ 144,186</u>

Scheduled principal and interest repayments on the long-term debt and capital lease are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		<u>Capital Lease</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 421,774	\$ 385,708	\$ 31,565	\$ 5,498	\$ 844,545
2013	441,622	365,860	32,995	4,068	844,545
2014	462,404	345,078	34,491	2,572	844,545
2015	484,164	323,318	36,054	1,009	844,545
2016	506,948	300,534	3,076	14	810,572
2017-2021	2,915,842	1,121,567	--	--	4,037,409
2022-2026	<u>3,263,522</u>	<u>370,145</u>	<u>--</u>	<u>--</u>	<u>3,633,667</u>
	<u>\$ 8,496,276</u>	<u>\$ 3,212,210</u>	<u>\$ 138,181</u>	<u>\$ 13,161</u>	<u>\$ 11,859,828</u>

Total interest cost for the year ended June 30, 2011 was \$393,568 (\$199,505 in 2010). Interest of \$37,644 (\$55,502 in 2010) was capitalized as part of the cost of construction in progress.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE H - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% (5.38% beginning July 1, 2011) of their annual salary and the Hospital is required to contribute 6.95% (8.07% beginning July 1, 2011) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were approximately \$851,000, \$794,000, and \$748,000, respectively, equal to the required contributions for each year.

NOTE I - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2011, was approximately \$2,316,904, (\$1,873,905 at June 30, 2010). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE J - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2011</u>	<u>2010</u>
Services purchased from HPSI	\$ <u>90,037</u>	\$ <u>86,184</u>
Services and supplies provided to HPSI	\$ <u>28,029</u>	\$ <u>22,844</u>
Amount due to HPSI	\$ <u>18,033</u>	\$ <u>20,545</u>
Member share of net assets	\$ <u>387,037</u>	\$ <u>344,382</u>

The member share of net assets is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI are on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2011, contributions received from this organization were \$24,650 (\$30,250 for 2010).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE K - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided.

Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued.

Montgomery County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees. There are 202 active employees and 11 retirees currently covered by the plan.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Event

The Hospital has evaluated all subsequent events through December 19, 2011, the date the financial statements were available to be issued.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2011 and 2010

NOTE L - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Receivable from:		
Patients	\$ 814,130	\$ 969,184
Medicare	2,194,921	3,004,584
Medicaid	281,398	418,827
Blue Cross	861,801	911,823
Other commercial insurance carriers	680,093	796,071
Others	<u>46,988</u>	<u>32,287</u>
	4,879,331	6,132,776
Less allowances for doubtful accounts and contractual adjustments	<u>1,338,447</u>	<u>1,527,000</u>
	<u>\$ 3,540,884</u>	<u>\$ 4,605,776</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,366,800	\$ --	\$ 1,366,800
Other revenues	25,618,347	45,000	25,663,347
Transfers in (out)	<u>797,362</u>	<u>(797,362)</u>	<u>--</u>
	27,782,509	(752,362)	27,030,147
Expenses	<u>27,568,560</u>	<u>--</u>	<u>27,568,560</u>
Net	213,949	(752,362)	(538,413)
Balance beginning of year	<u>23,409,424</u>	<u>823,559</u>	<u>24,232,983</u>
Balance end of year	<u>\$ 23,623,373</u>	<u>\$ 71,197</u>	<u>\$ 23,694,570</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,366,800	\$ --	\$ 1,366,800	\$ 1,364,306
Other revenues	<u>25,663,347</u>	<u>405,004</u>	<u>26,068,351</u>	<u>31,831,403</u>
	27,030,147	405,004	27,435,151	33,195,709
Expenses	<u>27,568,560</u>	<u>2,533,791</u>	<u>30,102,351</u>	<u>35,844,571</u>
Net	(538,413)	(2,128,787)	(2,667,200)	(2,648,862)
Balance beginning of year	<u>24,232,983</u>	<u>(16,217,864)</u>	<u>8,015,119</u>	<u>8,015,119</u>
Balance end of year	<u>\$ 23,694,570</u>	<u>\$ (18,346,651)</u>	<u>\$ 5,347,919</u>	<u>\$ 5,366,257</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,933,195	39.6%	\$ 1,039,826	16.9%
31 - 90	1,102,678	22.6	1,836,645	29.9
91 - 180	385,188	7.9	526,667	8.6
181 - 360	156,029	3.2	239,661	3.9
361 and over	229,789	4.7	102,189	1.7
	<u>3,806,879</u>	<u>78.0</u>	<u>3,744,988</u>	<u>61.0</u>
In hospital and unbilled	<u>1,072,452</u>	<u>22.0</u>	<u>2,387,788</u>	<u>39.0</u>
	<u>4,879,331</u>	<u>100.0%</u>	<u>6,132,776</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	319,447		316,000	
Allowance for contractual adjustments	<u>1,019,000</u>		<u>1,211,000</u>	
	<u>\$ 3,540,884</u>		<u>\$ 4,605,776</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Balance, beginning	\$ 316,000	\$ 355,000
Provision for bad debts	1,178,930	924,455
Recoveries of accounts previously written off	<u>224,904</u>	<u>187,825</u>
	<u>1,719,834</u>	<u>1,467,280</u>
Accounts written off	<u>1,400,387</u>	<u>1,151,280</u>
Balance, ending	<u>\$ 319,447</u>	<u>\$ 316,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2011</u>	<u>2010</u>
<u>Inventory</u>		
General stores	\$ 209,060	\$ 208,740
Pharmacy	188,086	174,977
Dietary	<u>16,448</u>	<u>14,238</u>
	<u>\$ 413,594</u>	<u>\$ 397,955</u>
 <u>Prepaid Expense</u>		
Dues	\$ 14,514	\$ 13,614
General insurance	259,535	231,361
Service contracts	<u>156,841</u>	<u>174,630</u>
	<u>\$ 430,890</u>	<u>\$ 419,605</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2011	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,088,519	\$ 206,591
Coronary care	1,731,825	200,858
Nursery	88,671	--
	<u>2,909,015</u>	<u>407,449</u>
Other Nursing Services:		
Operating room	232,235	1,548,844
Recovery room	11,880	169,016
Labor and delivery rooms	79,741	38,111
Medical supplies	582,374	1,161,235
Intravenous therapy	1,659,507	580,386
Emergency service	681	1,862,837
Wound/ostomy care	1,434	13,943
Outpatient clinics	2,445	269,055
	<u>2,570,297</u>	<u>5,643,427</u>
Other Professional Services:		
Emergency room physicians	--	1,011,645
Laboratory	759,089	2,446,439
Electrocardiology	97,595	320,517
Electroencephalography	10,052	5,540
Radiology	101,975	1,306,480
Ultrasound	63,133	651,397
CT scan	186,065	2,287,735
Mammography	406	380,223
MRI	66,570	908,270
Nuclear medicine	27,475	142,885
Pharmacy	1,456,194	1,298,270
Anesthesiology	145,905	598,109
Inhalation therapy	942,461	364,812
Physical therapy	96,519	913,632
Speech therapy	15,930	56,261
Occupational therapy	9,598	174,780
Cardiopulmonary rehabilitation	--	133,655
Oncology	46,086	1,873,584
Sleep study	--	284,808
Home health	--	437,398
Hospice	3,888	403,037
Business health	--	107,993
Women's Health Clinic	--	435,922
Villisca Medical Clinic	--	223,592
Surgical services	--	911,857
Internal Medicine Clinic	--	1,973,020
	<u>4,028,941</u>	<u>19,651,861</u>
	<u>\$ 9,508,253</u>	<u>\$ 25,702,737</u>

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2011		2010
Swing Bed	Total	Total
\$ 1,564,000	\$ 2,859,110	\$ 3,099,082
--	1,932,683	2,033,391
--	88,671	109,338
<u>1,564,000</u>	<u>4,880,464</u>	<u>5,241,811</u>
21,239	1,802,318	1,815,039
1,390	182,286	195,401
--	117,852	127,363
307,635	2,051,244	2,066,908
800,404	3,040,297	1,565,454
--	1,863,518	1,886,973
4,763	20,140	19,172
3,806	275,306	226,705
<u>1,139,237</u>	<u>9,352,961</u>	<u>7,903,015</u>
--	1,011,645	1,025,875
298,138	3,503,666	3,342,719
15,559	433,671	542,250
780	16,372	11,224
41,598	1,450,053	1,379,253
11,540	726,070	696,116
59,790	2,533,590	2,515,938
--	380,629	390,367
16,070	990,910	930,596
5,220	175,580	165,840
1,197,542	3,952,006	3,620,573
8,130	752,144	778,787
840,825	2,148,098	1,798,220
246,187	1,256,338	1,301,933
19,458	91,649	110,964
32,899	217,277	251,496
--	133,655	87,360
33,190	1,952,860	1,235,174
--	284,808	244,924
--	437,398	418,707
--	406,925	375,455
--	107,993	88,406
--	435,922	498,233
--	223,592	224,548
--	911,857	763,559
--	1,973,020	1,863,782
<u>2,826,926</u>	<u>26,507,728</u>	<u>24,662,299</u>
<u>\$ 5,530,163</u>	<u>\$ 40,741,153</u>	<u>\$ 37,807,125</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 40,741,153	\$ 37,807,125
Contractual adjustments	(13,951,461)	(12,015,495)
Discounts and allowances	(146,056)	(139,235)
Charity care	(70,548)	(79,190)
Provision for bad debts	<u>(1,178,930)</u>	<u>(924,455)</u>
	<u>\$ 25,394,158</u>	<u>\$ 24,648,750</u>
Other Operating Revenue:		
Meals sold	\$ 99,399	\$ 98,228
Prisoner meals	21,240	26,660
Meals on wheels	35,493	42,326
Lifeline	63,714	66,457
Medical record transcripts	4,565	6,026
Case management	30,548	36,393
Wellness	32,615	33,279
Contracted services	16,770	29,280
Certified training classes	8,962	11,454
Miscellaneous	<u>22,006</u>	<u>38,804</u>
	<u>\$ 335,312</u>	<u>\$ 388,907</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Administrative:		
Salaries and wages	\$ 169,679	\$ 158,623
Employee benefits	38,972	31,982
Supplies and other expense	<u>13,420</u>	<u>23,021</u>
	222,071	213,626
Quality Assurance:		
Salaries and wages	59,766	64,131
Employee benefits	13,699	12,722
Supplies and other expense	<u>6,006</u>	<u>5,540</u>
	79,471	82,393
Inservice:		
Salaries and wages	64,299	60,918
Employee benefits	15,055	15,860
Supplies and other expense	<u>28,957</u>	<u>28,723</u>
	108,311	105,501
Medical and Surgical:		
Salaries and wages	1,676,731	1,629,282
Employee benefits	529,966	492,460
Supplies and other expense	<u>191,515</u>	<u>130,895</u>
	2,398,212	2,252,637
Coronary Care:		
Salaries and wages	822,651	889,483
Employee benefits	274,311	256,533
Supplies and other expense	<u>159,465</u>	<u>28,683</u>
	1,256,427	1,174,699
Obstetric:		
Salaries and wages	36,238	44,142
Employee benefits	5,139	6,180
Supplies and other expense	<u>1,884</u>	<u>430</u>
	43,261	50,752

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Nursery:		
Salaries and wages	\$ 33,943	\$ 42,564
Employee benefits	4,817	5,959
Supplies and other expense	<u>7,632</u>	<u>4,365</u>
	46,392	52,888
Operating Room:		
Salaries and wages	413,058	452,251
Employee benefits	137,622	134,157
Supplies and other expense	<u>201,052</u>	<u>110,518</u>
	751,732	696,926
Labor and Delivery:		
Salaries and wages	18,537	21,268
Employee benefits	2,630	2,978
Supplies and other expense	<u>19,649</u>	<u>14,496</u>
	40,816	38,742
Central Services and Supply:		
Salaries and wages	190,336	176,056
Employee benefits	69,723	69,558
Supplies sold to patients	510,208	547,148
Supplies and other expense	<u>10,540</u>	<u>11,183</u>
	780,807	803,945
Intravenous Therapy:		
Solutions	36,676	36,468
Emergency Services:		
Salaries and wages	495,126	466,160
Employee benefits	117,201	99,281
Supplies and other expense	<u>65,888</u>	<u>19,031</u>
	678,215	584,472
Outpatient Clinics:		
Salaries and wages	277,980	265,403
Employee benefits	94,215	84,578
Supplies and other expense	<u>55,507</u>	<u>32,915</u>
	427,702	382,896
	<u>\$ 6,870,093</u>	<u>\$ 6,475,945</u>

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 4,258,344	\$ 4,270,281
Employee benefits	1,303,350	1,212,248
Other expense	<u>1,308,399</u>	<u>993,416</u>
	<u>\$ 6,870,093</u>	<u>\$ 6,475,945</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Emergency Room Physicians:		
Professional fees	\$ 1,010,273	\$ 984,923
Laboratory:		
Salaries and wages	521,926	479,895
Employee benefits	136,983	126,458
Purchased services	114,341	129,384
Supplies and other expense	<u>485,027</u>	<u>457,822</u>
	1,258,277	1,193,559
Blood Bank:		
Cost of blood	158,987	119,463
Electrocardiology:		
Salaries and wages	17,065	15,826
Employee benefits	2,431	2,200
Purchased services	96,439	98,896
Supplies and other expense	<u>520</u>	<u>1,078</u>
	116,455	118,000
Electroencephalography:		
Salaries and wages	1,008	1,152
Employee benefits	144	161
Supplies and other expense	<u>447</u>	<u>16</u>
	1,599	1,329
Radiology:		
Salaries and wages	492,188	422,626
Employee benefits	137,130	112,271
Cost of film	746	--
Supplies and other expense	<u>222,097</u>	<u>228,763</u>
	852,161	763,660
Ultrasound:		
Salaries and wages	101,646	94,568
Employee benefits	25,911	20,492
Supplies and other expense	<u>29,079</u>	<u>29,988</u>
	156,636	145,048

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
CT Scan:		
Salaries and wages	\$ 2,525	\$ 45,457
Employee benefits	7,354	16,088
Professional fees	90,022	83,534
Supplies and other expense	<u>16,673</u>	<u>5,341</u>
	116,574	150,420
Mammography:		
Purchased services	95,990	80,853
Supplies and other expense	<u>15,572</u>	<u>21,790</u>
	111,562	102,643
MRI:		
Purchased services	154,000	146,800
Supplies and other expense	<u>8,104</u>	<u>10,497</u>
	162,104	157,297
Nuclear Medicine:		
Purchased services	58,742	64,902
Supplies and other expense	<u>488</u>	<u>--</u>
	59,230	64,902
Pharmacy:		
Salaries and wages	318,205	311,907
Employee benefits	63,399	60,151
Purchased services	85,909	108,457
Drugs	567,876	625,714
Supplies and other expense	<u>13,219</u>	<u>9,354</u>
	1,048,608	1,115,583
Anesthesiology:		
Salaries and wages	373,094	368,211
Employee benefits	68,665	58,386
Professional fees	220	35,495
Supplies and other expense	<u>25,679</u>	<u>32,595</u>
	467,658	494,687
Inhalation Therapy:		
Salaries and wages	338,822	301,750
Employee benefits	92,005	75,014
Purchased services	--	593
Supplies and other expense	<u>59,105</u>	<u>51,728</u>
	489,932	429,085

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Physical Therapy:		
Professional fees	\$ 477,772	\$ 494,390
Supplies and other expense	<u>24,229</u>	<u>7,456</u>
	502,001	501,846
Speech Therapy:		
Professional fees	43,632	50,780
Supplies and other expense	<u>--</u>	<u>169</u>
	43,632	50,949
Occupational Therapy:		
Professional fees	83,511	96,238
Supplies and other expense	<u>--</u>	<u>61</u>
	83,511	96,299
Cardiopulmonary Rehabilitation:		
Salaries and wages	111,040	109,263
Employee benefits	28,035	25,037
Supplies and other expense	<u>9,797</u>	<u>4,330</u>
	148,872	138,630
Oncology:		
Salaries and wages	155,948	148,767
Employee benefits	25,324	20,964
Supplies and other expense	<u>500,249</u>	<u>358,533</u>
	681,521	528,264
Sleep Study:		
Salaries and wages	75,744	101,999
Employee benefits	19,425	15,552
Professional fees	--	13
Supplies and other expense	<u>17,142</u>	<u>7,409</u>
	112,311	124,973
Home Health:		
Salaries and wages	274,577	254,609
Employee benefits	88,816	76,458
Professional fees	114,232	107,447
Purchased services	17,834	21,512
Supplies and other expense	<u>28,066</u>	<u>25,224</u>
	523,525	485,250

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Hospice:		
Salaries and wages	\$ 104,459	\$ 101,944
Employee benefits	20,321	14,146
Purchased services	100,712	62,739
Supplies and other expense	<u>29,158</u>	<u>42,555</u>
	254,650	221,384
Business Health:		
Salaries and wages	34,814	64,252
Employee benefits	11,260	12,175
Supplies and other expense	<u>19,626</u>	<u>31,994</u>
	65,700	108,421
Women's Health Clinic:		
Salaries and wages	315,296	331,296
Employee benefits	95,188	91,583
Supplies and other expense	<u>65,723</u>	<u>53,458</u>
	476,207	476,337
Villisca Medical Clinic:		
Salaries and wages	174,997	174,450
Employee benefits	51,630	48,092
Supplies and other expense	<u>58,298</u>	<u>61,469</u>
	284,925	284,011
Surgical Services:		
Salaries and wages	378,682	360,028
Employee benefits	48,959	42,855
Supplies and other expense	<u>31,148</u>	<u>45,140</u>
	458,789	448,023
Internal Medicine Clinic:		
Salaries and wages	917,459	875,405
Employee benefits	225,648	206,559
Purchased services	39,573	3,516
Supplies and other expense	<u>83,430</u>	<u>87,126</u>
	1,266,110	1,172,606
Social Services:		
Salaries and wages	101,665	97,432
Employee benefits	23,983	22,174
Supplies and other expense	<u>2,099</u>	<u>997</u>
	127,747	120,603

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Lifeline:		
Supplies and other expense	\$ 56,713	\$ 53,585
Health Information Management:		
Salaries and wages	311,201	311,059
Employee benefits	88,652	80,924
Supplies and other expense	<u>74,625</u>	<u>144,525</u>
	474,478	536,508
Case Management:		
Salaries and wages	5,683	3,812
Employee benefits	100	22
Supplies and other expense	<u>2,005</u>	<u>467</u>
	7,788	4,301
Diabetes Program:		
Salaries and wages	77,466	88,525
Employee benefits	21,832	25,502
Supplies and other expense	<u>2,835</u>	<u>1,628</u>
	102,133	115,655
Wound/Ostomy Care:		
Purchased services	26	27,804
Supplies and other expense	<u>--</u>	<u>5,869</u>
	26	33,673
	<u>\$ 11,680,695</u>	<u>\$ 11,341,917</u>

SUMMARY

Salaries and wages	\$ 5,205,510	\$ 5,064,233
Employee benefits	1,283,195	1,153,264
Professional fees	1,819,662	1,852,820
Other expense	<u>3,372,328</u>	<u>3,271,600</u>
	<u>\$ 11,680,695</u>	<u>\$ 11,341,917</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Dietary:		
Salaries and wages	\$ 449,162	\$ 437,580
Employee benefits	166,760	153,367
Food	210,586	205,640
Supplies and other expense	<u>48,117</u>	<u>45,793</u>
	874,625	842,380
Housekeeping:		
Salaries and wages	410,604	360,306
Employee benefits	173,271	132,519
Purchased services	23,222	22,113
Supplies and other expense	<u>108,142</u>	<u>93,647</u>
	715,239	608,585
Laundry and Linen:		
Purchased services	98,492	98,871
Supplies and other expense	<u>2,281</u>	<u>2,698</u>
	100,773	101,569
Plant Engineering:		
Salaries and wages	250,626	248,139
Employee benefits	49,217	48,785
Utilities	384,172	317,164
Purchased services	36,861	53,342
Supplies and other expense	<u>168,995</u>	<u>180,678</u>
	889,871	848,108
	<u>\$ 2,580,508</u>	<u>\$ 2,400,642</u>

SUMMARY

Salaries and wages	\$ 1,110,392	\$ 1,046,025
Employee benefits	389,248	334,671
Other expense	<u>1,080,868</u>	<u>1,019,946</u>
	<u>\$ 2,580,508</u>	<u>\$ 2,400,642</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Administrative:		
Salaries and wages	\$ 256,694	\$ 252,170
Employee benefits	189,462	303,375
Professional fees	87,212	76,943
Dues and subscriptions	54,051	50,238
Purchased services	26,460	38,303
Collection fees	56,333	55,271
Telephone	35,992	37,859
Supplies and other expense	<u>201,578</u>	<u>125,180</u>
	907,782	939,339
Accounting:		
Salaries and wages	203,394	188,723
Employee benefits	55,047	48,971
Supplies and other expense	<u>22,328</u>	<u>12,251</u>
	280,769	249,945
Admissions/Business Office:		
Salaries and wages	224,626	195,843
Employee benefits	75,852	61,309
Supplies and other expense	<u>29,157</u>	<u>9,610</u>
	329,635	266,762
Patient Accounting:		
Salaries and wages	249,108	248,447
Employee benefits	82,571	77,624
Supplies and other expense	<u>51,228</u>	<u>73,269</u>
	382,907	399,340
Fiscal Services:		
Salaries and wages	120,441	128,621
Employee benefits	58,450	49,275
Purchased services	4,028	30,827
Supplies and other expense	<u>8,228</u>	<u>6,440</u>
	191,147	215,163
Information Systems:		
Salaries and wages	626,982	577,795
Employee benefits	156,485	142,989
Purchased services and maintenance	382,707	305,097
Supplies and other expense	<u>122,070</u>	<u>104,316</u>
	1,288,244	1,130,197

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Human Resources:		
Salaries and wages	\$ 85,957	\$ 78,837
Employee benefits	48,249	44,236
Purchased services	3,914	782
Supplies and other expense	<u>32,269</u>	<u>22,528</u>
	170,389	146,383
Public Relations:		
Salaries and wages	78,974	74,329
Employee benefits	15,305	14,312
Supplies and other expense	<u>93,492</u>	<u>83,124</u>
	187,771	171,765
DRG/Utilization Review:		
Salaries and wages	96,756	98,566
Employee benefits	24,062	22,005
Supplies and other expense	<u>777</u>	<u>976</u>
	121,595	121,547
Insurance:		
Liability and property insurance	<u>145,771</u>	<u>142,251</u>
	<u>\$ 4,006,010</u>	<u>\$ 3,782,692</u>

SUMMARY

Salaries and wages	\$ 1,942,932	\$ 1,843,331
Employee benefits	705,483	764,096
Professional fees	87,212	76,943
Other expense	<u>1,270,383</u>	<u>1,098,322</u>
	<u>\$ 4,006,010</u>	<u>\$ 3,782,692</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 12,517,178	\$ 12,223,870
Employee benefits	3,681,276	3,464,279
Professional fees	1,906,874	1,929,763
Other expense	<u>7,031,978</u>	<u>6,383,284</u>
	<u>\$ 25,137,306</u>	<u>\$ 24,001,196</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Admissions	825	906	1,099	1,103	1,130
Discharges	825	915	1,096	1,102	1,133
Average Length of Stay	3.54	3.70	3.63	3.44	3.55
Acute Patient Days	2,919	3,387	3,982	3,795	4,022
Average Occupied Beds	8.0	9.3	10.9	10.4	11.0
Swing Bed Days	2,716	2,750	2,290	2,376	2,372
Combined Average Occupied Beds	15.4	16.8	17.2	16.9	17.5
Beds Available	25	25	25	25	25
Nursery Days	126	158	190	212	227
Outpatient Occasions of Service	40,682	40,328	42,096	39,720	40,346

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash	\$ 1,890,890	\$ 584,377
Receivables, net	3,597,681	4,670,816
Inventory	413,594	397,955
Prepaid expense	430,890	419,605
Estimated third-party payor settlements	938,000	554,000
Succeeding year property tax receivable	1,395,000	1,364,000
Internally designated assets	<u>91,989</u>	<u>847,260</u>
Total current assets	8,758,044	8,838,013
Other Assets:		
Internally designated and restricted assets	5,484,053	3,638,107
Capital assets, net	21,924,713	20,655,089
Other non-current assets	<u>614,443</u>	<u>616,663</u>
Total other assets	<u>28,023,209</u>	<u>24,909,859</u>
	<u>\$ 36,781,253</u>	<u>\$ 33,747,872</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 430,524	\$ 727,444
Accounts payable	1,670,469	1,508,912
Estimated third-party payor settlements	--	--
Accrued expenses	1,416,584	1,325,410
Deferred revenue for succeeding year property tax receivable	<u>1,395,000</u>	<u>1,364,000</u>
Total current liabilities	4,912,577	4,925,766
Long-Term Debt, Net	8,174,106	4,589,123
Net Assets	<u>23,694,570</u>	<u>24,232,983</u>
	<u>\$ 36,781,253</u>	<u>\$ 33,747,872</u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,138,063	\$ 1,986,147	\$ 1,842,873
4,102,927	3,927,422	3,835,133
387,787	301,609	320,792
127,948	144,864	145,506
--	--	--
1,282,000	1,225,000	1,172,000
<u>1,003,162</u>	<u>805,071</u>	<u>1,104,097</u>
8,041,887	8,390,113	8,420,401
6,430,070	9,342,307	8,688,610
13,595,321	10,071,071	10,398,351
<u>737,604</u>	<u>664,035</u>	<u>662,783</u>
<u>20,762,995</u>	<u>20,077,413</u>	<u>19,749,744</u>
<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>	<u>\$ 28,170,145</u>
\$ 497,340	\$ 527,627	\$ 484,745
673,622	428,478	725,381
35,000	457,000	460,000
1,265,831	1,086,775	1,246,692
<u>1,282,000</u>	<u>1,225,000</u>	<u>1,172,000</u>
<u>3,753,793</u>	<u>3,724,880</u>	<u>4,088,818</u>
1,653,893	2,151,233	2,599,071
<u>23,397,196</u>	<u>22,591,413</u>	<u>21,482,256</u>
<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>	<u>\$ 28,170,145</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Patient Service Revenue	\$ 40,741,153	\$ 37,807,125
Adjustments to Patient Service Revenue	<u>(15,346,995)</u>	<u>(13,158,375)</u>
Net Patient Service Revenue	25,394,158	24,648,750
Other Revenue	<u>335,312</u>	<u>388,907</u>
Total Revenue	25,729,470	25,037,657
Expenses	<u>27,568,560</u>	<u>25,664,355</u>
Operating Loss	(1,839,090)	(626,698)
Non-Operating Revenue, Net	<u>1,255,677</u>	<u>1,398,090</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	(583,413)	771,392
Capital Grants and Contributions	<u>45,000</u>	<u>64,395</u>
Increase (Decrease) in Net Assets	<u><u>\$ (538,413)</u></u>	<u><u>\$ 835,787</u></u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 36,707,743	\$ 30,618,227	\$ 29,180,059
<u>(13,097,499)</u>	<u>(9,807,635)</u>	<u>(8,805,767)</u>
23,610,244	20,810,592	20,374,292
<u>415,627</u>	<u>385,803</u>	<u>377,313</u>
24,025,871	21,196,395	20,751,605
<u>24,849,053</u>	<u>21,875,984</u>	<u>20,865,182</u>
(823,182)	(679,589)	(113,577)
<u>1,603,965</u>	<u>1,761,089</u>	<u>1,724,396</u>
780,783	1,081,500	1,610,819
<u>25,000</u>	<u>27,657</u>	<u>26,065</u>
<u>\$ 805,783</u>	<u>\$ 1,109,157</u>	<u>\$ 1,636,884</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

We have audited the financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2011, and have issued our report thereon dated December 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montgomery County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Montgomery County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Montgomery County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Montgomery County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gammewahl, Ben, Kyhnert G.P.C.

Atlantic, Iowa
December 19, 2011

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2011

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

11-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This is a common deficiency among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

Other:

11-I-B Reconciliation of Patient Accounts Receivable: We noted during the audit that the physician clinics, and home health and hospice subsidiary patient accounts receivable listings were not being reconciled to the general ledger control accounts. A significant adjusting entry was necessary as part of these reconciliations in preparation for the audit.

Recommendation: We recommend that the physician clinics, and home health and hospice patient accounts receivable subsidiary listings be reconciled to the general ledger control accounts on a monthly basis, which will improve internal controls and the accuracy of the interim financial statements.

Response: The physician clinics, and home health and hospice patient accounts receivable subsidiary listings will be reconciled to the general ledger control accounts on a monthly basis in the future.

Conclusion: Response accepted.

* * *

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2011

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

11-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2011 did not exceed amounts budgeted.

11-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

11-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

11-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

11-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

11-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

11-II-G Publication of Quarterly Schedule of Bills: Chapter 347.13(11) requires the Hospital to publish quarterly a schedule of bills allowed. We noted during the audit that the schedule of bills had not been published for the past three quarters and the publishing of the previous quarter was not done on a timely basis.

Recommendation: We recommend that the schedule of bills be published quarterly on a timely basis as required by Code of Iowa Chapter 347.13(11).

Response: The schedule of bills will be published quarterly on a timely basis in the future.

Conclusion: Response accepted.

* * *